

City of Detroit


CITY COUNCIL

IRVIN CORLEY, JR.
FISCAL ANALYST
(313) 224-1076

FISCAL ANALYSIS DIVISION
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 218
Detroit, Michigan 48226
FAX: (313) 224-2783
E-Mail: cc-fiscal@ci.detroit.mi.us

ANNE MARIE LANGAN
ASSISTANT FISCAL ANALYST
(313) 224-1078

TO: Anthony Adams, Chairperson
Greater Detroit Resource Recover Authority

FROM: Irvin Corley, Jr., Fiscal Analysis Director 

DATE: April 20, 2006

RE: 2006-07 Budget Analysis

Attached is our budget analysis regarding your department's budget for the upcoming 2006-07 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing. We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:cyb

Attachment

cc: Councilmembers
Council Divisions
Auditor General's Office
Roger Short, Interim Chief Financial Officer
Pam Scales, Budget Department Director
Vera Magee, Budget Department Team Leader
Tina Tolliver, Budget Department Team Leader
Monica Johnson, Head Accountant-GDRRA
Kandia Milton, Mayor's Office

Greater Detroit Resource Recovery Authority

FY 2006-07 Budget Analysis by the Fiscal Analysis Division

The City of Detroit/Resource Recovery Agreement specifically mandates that “the City shall budget, appropriate and requisition City funds for payment of the Tipping Fee . . . “. It further states that “ the City hereby recognizes and affirms that its obligations to pay Tipping Fees . . . are full faith and credit obligation of the City . . . The City expressly and irrevocably pledges its full faith and credit for the prompt and timely payment of the Tipping Fees, and shall each year, commencing with the Fiscal Year 1985-86, appropriate from its General Fund as a first budget obligation sufficient monies to pay such Tipping Fees.” (emphasis added).

As a result of the language included in this agreement, it becomes a primary budget obligation to provide for the DPW Tipping Fee. It can be argued that this obligation supersedes the City’s obligation to provide police, fire, sanitation and other generally recognized City services. It appears that the only way to avoid appropriating the Tipping Fee from the General Fund is if the City is actually in a default position resulting from bankruptcy, and the fee can then be assigned directly against the Detroit property owner. This would be done by assessing directly against the residential users of the Authority’s Resource Recovery facility based on a flat annual fee and against commercial users of the facility based upon individual contracts.

The Tipping Fee amount is calculated by taking the sum of the operating fee, the authority’s administrative expenses, plus debt service, less the authority’s revenues. The attachment presents the request and calculation in detail.

The DPW budget contains funds for the Tipping Fees in a single appropriation:

<u>Appropriation</u>	<u>2005-06 Budget</u>	<u>2006-07 Recommendation</u>	<u>Change</u>
0040 – Refuse Disposal			
Tipping Fee	\$ 80,343,068	\$ 85,555,067	\$ 5,211,999

The FY 2006-07 proposed Tipping Fee represents an increase of 6.49%. The Tipping Fee increase is the net result of operating expenses, including debt service increasing by 4.11% and estimated revenues increasing by 4.45%.

The GDRRA bonds were refinanced in March 1996. As a result of the refinancing, the City will save approximately \$184 million over the remaining life of the GDRRA bonds.

Issues and Questions

1. GDRRA has reported an operating deficit in the past of anywhere from \$14 to \$22 million. The detail sheet provided by GDRRA for last year, listing the 2005-06 operating budget request includes a line for "One half of the prior years deficits equal to \$10.0 million dollars." For the 2006-07 budget request, this amount has decreased to \$7.0 million, indicating a reduction in the deficit of \$6.0 million (\$14 million from \$20 million). Can you highlight the operating improvements that helped to reduce the deficit?
2. In November/December of 2005, GDRRA was working on awarding a contract for "Strategic Planning for Solid Waste Disposal Alternatives for GDRRA, and selected Detroit Waste Solutions, LLC as the contractor. Detroit Waste Solutions later declined the contract. What were the reasons Detroit Waste Solutions declined the award of the contract?
3. What were the contract requirements in the Strategic Planning for Solid Waste Disposal Alternatives? Has another contractor been selected? Who is the contractor? What is the cost? Where are the funds budgeted?
4. In the detail request from GDRRA, there is an expense line for "Supplemental Tipping Fee" in the amount of \$1,207,376 can you explain what this fee is? How is it calculated or what is it based on? Who is it paid to?
5. What is the expense line of Sales Taxes and Additional Operating Revenue?
6. The Non-Departmental Budget includes an appropriation and revenue in an equal amount for a Supplemental Fee (GDRRA). Our understanding of this account is, on the advice of bond counsel, this should represent the flow of GDRRA debt service payments through the City's accounts because the debt represents a full faith and credit obligation of the City. If the above is incorrect, please clarify. If the above is correct, why doesn't the Non-Departmental appropriation and revenue equal the amount of the lease payments that approximate the amortization of the mortgage notes? Provide a reconciliation of these numbers.
7. With the debt service on the facility expiring in a few years, what is the plan for the plant after that time? What is the expected overall condition of the plant anticipated to be like when the debt is retired? In other words, what was the life expectancy of the plant and equipment originally? Is the facility holding up in operations as planned?
8. Have any contracts or agreements been entered into to provide an analysis of the direction the City should proceed in once the debt is paid off? If contracts have been entered into, who are they with? What is their background and expertise? When is a report expected?

9. The CAFR indicates that upon the expiration of the lease (in 2009?), the GDRRA has options to renew the lease or to repurchase the facility. Is the repurchase price already determined as part of the original agreement? Is so what is the repurchase price? If not, what will the basis for the repurchase price be?

IC:JGP

Attachment

**Greater Detroit Resource Recovery Authority
Operating Budget Request**

	2005-06 <u>Budget</u>	2006-07 <u>Recommended</u>	<u>Inc/(Dec)</u>	
Expenses:				
Net Debt Service	\$50,417,266	\$52,605,130	\$2,187,864	
Net APC Debt Service	16,992,126	17,576,163	584,037	
Labor and Plant Maintenance	18,678,938	19,491,393	812,455	
Contractual Services/Other Costs	6,907,724	3,555,413	(3,352,311)	
Sales Taxes and Add'l Oper. Reven	-	3,652,767	3,652,767	
Lime Addition	985,007	1,127,762	142,755	
Purchased Electricity	221,531	193,906	(27,625)	
Other Fuels	721,286	1,002,096	280,810	
Water	845,421	784,031	(61,390)	
Sewerage	1,207,625	1,969,877	762,252	
Electrical Intertie Maintenance	156,357	156,357	-	
Steamline Maintenance	636,540	870,723	234,183	
Insurance	2,829,587	1,565,461	(1,264,126)	
Supplemental Tipping Fee	1,163,507	1,207,376	43,869	
Hauling and Disposal Costs	14,755,962	17,836,854	3,080,892	
Authority Administrative	2,598,021	2,507,765	(90,256)	
Escrow Fee (Authority)	1,113,204	1,113,204	-	
TOTAL EXPENSES	\$120,230,102	\$127,216,278	\$6,986,176	5.81%
Revenues:				
Steam Sales	\$28,725,781	\$30,312,689	1,586,908	
Electricity Sales	12,329,486	12,295,693	(33,793)	
Operators Energy Revenue	(6,038,290)	(6,271,257)	(232,967)	
Investment Earnings	-	-	-	
Private Hauler Fees	4,870,057	4,920,098	50,041	
Recovered Material	-	403,988	403,988	
TOTAL REVENUES	\$39,887,034	\$41,661,211	\$1,774,177	4.45%
TIPPING FEE	\$80,343,068	\$85,555,067	\$5,211,999	6.49%